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UNCLAS SECTION 01 OF 02 NDJAMENA 000437

SIPDIS

SENSITIVE

STATE FOR AF/C, S/USSES

NSC FOR GAVIN

LONDON FOR POL - LORD

PARIS FOR POL - BAIN AND KANEDA

ADDIS ABABA ALSO FOR AU

E.O. 12958: N/A

TAGS: PREL PGOV PREF ECON ETRD CD

SUBJECT: COTTON: CHAD'S SECOND EXPORT SECTOR IN TROUBLE

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SUMMARY

¶1. (U) CotonTchad, the GOC's largest parastatal and second largest exporter (after the oil sector), is in danger of bankruptcy. Complicated arrangements with growers require complex financial deals, which are challenging for a company that is poorly managed and plagued by corruption. In recent years, CotonTchad has been caught in a vicious cycle caused by reduced production which in turn causes reduced income and ability to finance out-year production. CotonTchad's decline puts in jeopardy the livelihoods of many individuals who work for the company, contracts with it, or depend on a worker associated with the firm for sustenance. END SUMMARY.

COTTON: A MAJOR EMPLOYER

¶2. (SBU) CotonTchad, headquartered in Chad's southern city of Moundou, is the country's largest parastatal and the second largest exporter, by revenue, after the oil sector. The firm is the sole cotton processing company in the nation, owned 75 percent by the GOC, 18 percent by the French textile company Dagris, and 7 percent by the local banking sector. The company produces cotton fiber for export and presses cottonseed oil for domestic consumption; it is not involved in any textile production.

¶3. (SBU) Poor management, rising prices for inputs, and challenges in the supply chain have all led CotonTchad down a precarious financial path. The failure of the firm would have major effects given the company's significant role in the national economy. CotonTchad is the third largest government employer, topped only by the public administration sector and the Chadian National Army. The cotton company employs over 3,000 permanent and temporary workers, in addition to the thousands of growers and cooperatives with whom it contracts. Company officials estimate that close to one million Chadians (counting families of workers) depend on the company's income; this is eight percent of the nation's population. IMF officials estimate that CotonTchad's revenues make up 20 to 25 percent of Chad's GDP. The National Institute for Economic and Demographic Statistics (INSEED) places the total value of Chad's cotton-fiber

exports at 56.4 million USD for the three-year 2006-2009 period.

A POORLY MANAGED PARASTATAL

¶ 14. (SBU) Some of the company financial troubles stem from its complicated arrangements with contracted village cooperatives. CotonTchad must secure two loans to finance its production each year. One loan enables the company to purchase fertilizer, which it then gives to producers on credit. A second loan provides cash with which the company purchases raw cottonseed at harvest time. A committee comprised of company officials and cotton producers sets CotonTchad's annual purchase prices for the harvested cotton.

¶ 15. (SBU) The firm's complex strategy of financing, fertilizer acquisition and distribution to farmers requires careful planning. Arrangements do not always align with Chad's short, rainy season-dependent growing period. A delay at any step in the process means that farmers cannot take full advantage of the use of fertilizer, which in turn jeopardizes production. Declining yields have created a vicious cycle: the company's production of cotton fiber for export has gone down, thus reducing revenue and the ability to finance out-year production at current levels.

¶ 16. (SBU) According to the African Bank for Development, 2009 was CotonTchad's worst year. The company's 2009 production was 30,000 tons, which earned 35.4 million USD, compared to historical averages over 100,000 tons and average earnings over 146 million USD. Although the GOC established a program to reform the cotton sector in 1999, there has been little to show for the effort. A functioning organization complete with Coordinator, which is known as the Cotton Sector Reform

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Project, aims to privatize the company, enhance growers' efficiency, and promote strong production. Still, CotonTchad has requested a government bailout of 120 million USD for restructuring, which runs counter to a GOC goal under its IMF Staff-Monitored Program to reduce government support to the cotton company. CotonTchad is also facing public assertions that its leadership is corrupt. Two directors were arrested in September for improper sales of cotton fiber, and the company's head has been suspended by the Ministry of Morality for misappropriation of funds.

COMMENT

¶ 17. (SBU) CotonTchad's accelerating decline puts in jeopardy the welfare of large numbers of Chadians who depend on the company for income. There does not seem to be any serious government effort to address the company's poor management situation or precarious financial structure, despite the President's recent claims that more effort and development must be focused on the cotton and agricultural sector. Further, the Cotton Sector Reform Project has yet to begin the necessary economic and financial audit necessary for any privatization effort. END COMMENT.

¶ 18. (U) Minimize considered.
BREMNER